

Message Text

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PLEASE PASS LABOR, TREASURY, FRB

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TAGS: ELAB, UK, PINT, EEC

SUBJECT: "THE FRIENDLY APPROACH" - TWO CONSERVATIVES

LOOK AT THE UNIONS AND OTHER MATTERS

REF: (A) LONDON 15830 (B) LONDON 18755

SUMMARY. JAMES PRIOR, CONSERVATIVE SHADOW SECRETARY OF
STATE FOR EMPLOYMENT, AND HIS DEPUTY, BARNEY HAYHOE,

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DISCUSSED WITH A SMALL GROUP OF LONDON-BASED LABOR

ATTACHES A NUMBER OF ISSUES - RANGING FROM THE IMF LOAN TO THE NEXT ELECTION AND THE RELATIONSHIP OF THE CONSERVATIVES TO THE TRADE UNIONS. PRIOR AGREED THAT AN IMF LOAN IS NECESSARY BUT HE OPPOSES A LONG TERM LOAN TO DEAL WITH STERLING BALANCES WHICH HE CHARACTERIZED AS A "RED HERRING." HE BELIEVES THAT THE NEXT ELECTION WILL TAKE PLACE IN ABOUT A YEAR'S TIME, PERHAPS IN OCTOBER, 1977, BUT HOPES BY THAT TIME THERE WILL BE A SPLIT IN THE LABOR PARTY AND TRADE UNION DISAFFECTION WITH THE GOVERNMENT. PRIOR IS SUPREMELY CONFIDENT THAT THE CONSERVATIVE GOVERNMENT CAN DO BUSINESS WITH THE UNIONS AND AVOID CONFRONTATION WHICH CHARACTERIZED THE HEATH GOVERNMENT, AND SAYS THAT THE CONSERVATIVES HAVE ALREADY LAID A GROUNDWORK OF CONSULTATION WITH THE TUC LEADERSHIP. THE SHADOW EMPLOYMENT SECRETARY ASSERTED THAT WHILE THE RECENT CABINET RESHUFFLE APPEARS TO BE A MOVE TO THE RIGHT, IT WAS DONE IN ORDER TO OBTAIN A MORE AGGRESSIVE FRONT BENCH. IN PRIOR'S VIEW, THERE SHOULD BE A CONTINUATION OF THE WAGE RESTRAINT POLICY FOR THE NEXT FEW YEARS BUT IT SHOULD BE MORE FLEXIBLE. END SUMMARY.

1. THE IMF LOAN - PRIOR SAID THAT WHILE HE ACCEPTS THE NEED FOR AN IMF LOAN NOW "LEST WE GO BANKRUPT", HE IS OPPOSED TO A LONG TERM LOAN TO DEAL WITH STERLING BALANCES. THIS IS NOT THE REAL ISSUE. HE SAID, BUT RATHER A "RED HERRING." IF THE LABOR GOVERNMENT WOULD ADOPT APPROPRIATE POLICIES (I.E., THOSE RECOMMENDED CONSERVATIVES), THERE WOULD BE NO STERLING BALANCE PROBLEM, IN HIS VIEW. HE SAID THAT INsofar AS ANY STERLING BALANCE PROBLEM DOES EXIST, IT IS DUE TO A BROAD LACK OF CONFIDENCE IN BRITAIN AND ABROAD.

AS FOR THE CURRENT UK/IMF NEGOTIATIONS, PRIOR DOES NOT BELIEVE THAT THE GOVERNMENT HAS SUFFICIENT NERVE TO CARRY THROUGH THE TOUGH EXPENDITURE CUTS WHICH ARE NECESSARY, ALTHOUGH HE IS PREPARED TO GIVE PRIME MINISTER CALLAGHAN AND CHANCELLOR OF THE EXCHEQUER GOOD MARKS FOR TRYING. PRIOR, FOLLOWING THE CONSERVATIVE PARTY POSITION IN "THE RIGHT APPROACH (REF. A). WOULD LIKE TO SEE DRASTIC CUTS IN PUBLIC SECTOR AND LIMITED OFFICIAL USE

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THE RESULTANT SAVINGS CHanneled INTO THE PRIVATE SECTOR THROUGH TAX RESTRUCTURING. (NOTE: PRIOR'S REMARKS ON STERLING BALANCES WERE MADE IN RESPONSE TO A STATEMENT BY THE GERMAN LABOR ATTACHE, RUDI VOLLMER, WHO SAID THAT HIS EMBASSY HAS STRONGLY URGED BONN TO SUPPORT A LONG-TERM INTERNATIONAL LOAN - WITHOUT STRINGS - TO HELP BRITAIN RESOLVE HER STERLING BALANCES PROBLEM.)

2. THE NEXT ELECTION - DESPITE PRIOR'S ASSERTION THAT THE GOVERNMENT DOES NOT HAVE ENOUGH NERVE TO TAKE THE NECESSARY DEFLATIONARY MEASURES. HE ACKNOWLEDGED THAT THE GOVERNMENT WILL BE FORCED TO TAKE A NUMBER OF ECONOMIC DECISIONS WHICH COULD BE SUFFICIENTLY UNPOPULAR TO DIVIDE THE LABOR PARTY AND CAUSE THE DISAFFECTION OF THE TRADE UNIONS FROM THE GOVERNMENT. IT IS FOLLOWING SUCH A SPLIT, WHICH BOTH HE AND HAYHOE STRONGLY HOPE WILL OCCUR, THAT THE CONSERVATIVES COULD GO TO THE POLLS. ON THE OTHER HAND, PRIOR INDICATED, THEY WOULD JUST LIKE TO SEE THE LABOR GOVERNMENT TAKE ENOUGH OF THE TOUGH, BITTER

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DECISIONS, WHICH WOULD HELP TO EASE THEIR OWN BURDENS WHEN THEY RETURN TO OFFICE. PRIOR FORESEES THE NEXT GENERAL ELECTION NO SOONER THAN "ABOUT A YEAR'S TIME - BUT PERHAPS AS EARLY AS OCTOBER 1977". WHILE HAYHOE SAYS THAT SOME VERY KNOWLEDGEABLE LOBBY CORRESPONDENTS, SUCH AS DAVID WOOD OF THE "TIMES" AND DAVID WATT OF THE "FINANCIAL TIMES", BELIEVE THAT AN ELECTION COULD COME BEFORE THE SUMMER. HAYHOE SAID THAT THE LOBBY CORRESPONDENTS' EARLY ELECTION VIEW IS BASED ON THE LIKE-LIMITED OFFICIAL USE

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LIHOOD THAT THE LABOR GOVERNMENT, WITH ITS RAZOR-SLIM

NUMBER OF ISSUES SUCH AS DEVOLUTION THAT "IT WILL SIMPLY BLEED AWAY." HOWEVER, BOTH MEN ACKNOWLEDGED THAT THE GOVERNMENT WILL DO EVERYTHING IN ITS POWER TO HOLD OFF AN ELECTION AS LONG AS POSSIBLE. AS HAYHOE PUT IT. "THEY DO NOT WISH TO BE THWARTED IN THEIR LONG TIME AMBITION OF BEING THE GOVERNMENT IN POWER WHEN THE GOLDEN OIL BARREL AT THE END OF THE RAINBOW IS REACHED." THE DANGER FOR THE CONSERVATIVE PARTY, HE ADDED, IS THAT "IT VERY OFTEN TENDS TO SNATCH DEFEAT FROM THE JAWS OF VICTORY."

3. A CONSERVATIVE GOVERNMENT AND THE TRADE UNIONS - PRIOR IS SUPREMELY CONFIDENT THAT A CONSERVATIVE GOVERNMENT CAN DO BUSINESS WITH THE TRADE UNIONS AND AVOID THE CONFRONTATION WHICH CHARACTERIZED THE LAST CONSERVATIVE GOVERNMENT. HE ACCEPTS THE FACT THAT THE CONSERVATIVES ARE COMMITTED IN THEIR POLICY DOCUMENT "THE RIGHT APPROACH" (REF. A) TO MUCH GREATER ECONOMIC STRINGENCY THAN THE LABOR GOVERNMENT IS PREPARED TO IMPOSE. HE ARGUES THAT. FIRST OF ALL, THE CONSERVATIVES WOULD HAVE A YEAR AFTER AN ELECTION (WITH A MAJORITY, HE WAGERED, OF ABOUT 325 OUT OF 635 IN THE COMMONS) WHEN IT COULD BE EXPECTED, OR ALLOWED, TO TAKE ACTIONS IN ACCORDANCE WITH A CLEAR MANDATE FROM THE VOTERS. SECONDLY, HE DOES NOT EXPECT ANY MAJOR CONFRONTATION WITH THE UNIONS ON PUBLIC EXPENDITURE CUTS BECAUSE A CONSERVATIVE GOVERNMENT WOULD SHIFT RESOURCES THUS SAVED INTO THE PRIVATE SECTOR. (HE NOTED THAT WHEN HE HAS TALKED TO JONES AND SCANLON. THEY AGREED THERE WAS TOO MUCH FAT IN THE CIVIL SERVICE).

4. THIRDLY. THE CONSERVATIVES ARE DOING ALL THEY CAN TO AVOID THE MISTAKES OF THE HEATH GOVERNMENT, WHICH HE FREELY ACKNOWLEDGED. THEY HAVE ALREADY LAID THE GROUND-WORK FOR A DIALOGUE BY HAVING INFORMAL CONVERSATIONS WITH

THE TRADE UNION LEADERSHIP. WHICH WILL BE FOLLOWED UP
EARLY IN THE NEW YEAR BY FURTHER SOMEWHAT MORE
STRUCTURED, MEETINGS WITH HIM AND OTHER SHADOW
MINISTERS - AND WHICH WILL ALSO INCLUDE MARGARET
THATCHER. FOURTHLY, THE CONSERVATIVES ARE ADOPTING A
GENERALLY LOW PROFILE ON INDUSTRIAL RELATIONS ON MOST
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ISSUES. ALTHOUGH THEY DO HAVE A PUBLIC POSITION CALLING
FOR MODIFICATION OF CURRENT CLOSED SHOP LEGISLATION
(READ UNION SHOP IN U.S. TERMS) TO ALLOW FOR EXEMPTION ON
BASIS OF CONSCIENCE. ALTHOUGH THERE HAS BEEN A CONSER-
VATIVE OUTCRY ABOUT "UNEMPLOYMENT SCROUNGERS", THE
CONSERVATIVES WILL NOT TRY TO TAX UNEMPLOYMENT BENEFITS
(PARTLY BECAUSE THEY BELIEVE THE LABOR GOVERNMENT MAY DO
THE JOB FOR THEEM). IN BROAD TERMS, THE CONSERVATIVES,
PRIOR SAID - WHILE THEY CAN HARDLY EXPECT TO HAVE THE
SAME CLOSE RELATIONSHIP WITH THE UNION LEADERSHIP AS DOES
THE LABOR PARTY - WILL BE ABLE TO OFFER THE UNIONS WHAT
THEY WANT MOST: A DOWNTURN IN UNEMPLOYMENT AND A HIGHER
STANDARD OF LIVING.

5. MARGARET THATCHER'S PRICKLY IMAGE - WHEN ONE OF HIS
AUDITORS NOTED THAT THE UNIONS LIKED PRIOR AND HAD
DEVELOPED A HEALTHY RESPECT FOR HEATH, BUT THAT THEY DID
NOT SEEM TO LIKE MRS. THATCHER. PRIOR ACKNOWLEDGED THAT
"MRS. THATCHER SOMETIMES TENDS TO TREAT HER FELLOW
CABINET MEMBERS AS SCHOOLBOYS" AND SOMETIMES SEEMS TO
FORGET THAT HE, TOO, HAD BEEN HER EQUAL. HOWEVER, THIS BE-
HAVIOR. HE SAID, DID NOT REFLECT HER REAL VIEWS. AND, IN
ANY CASE. SHE WAS VERY GOOD ABOUT DELEGATING AUTHORITY.
INSOFAR AS THE UNIONS WERE CONCERNED, HE WOULD BE CALLING
THE TUNE FOR THE GOVERNMENT.

6. THE CABINET RESHUFFLE - PRIOR SAID THAT WHILE THE
RECENT CABINET RESHUFFLE (REF. B) APPEARED TO BE A MOVE
TOWARDS THE RIGHT, THE MAJOR REASON FOR THE SHIFT WAS
TO OBTAIN A MORE AGGRESSIVE CONSERVATIVE FRONT
BENCH. (HE PERSONALLY THOUGHT THAT THE APPOINTMENT OF
WINSTON CHURCHILL TO THE FRONT BENCH WAS A MISTAKE AND
WAS DONE MAINLY TO GET A FAMOUS NAME THERE.) BOTH HE

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AND HAYHOE EMPHASIZED THAT AS LONG AS PRIOR REMAINED IN
THE CABINET IT WOULD BE A MODERATE ONE. HAYHOE TERMED
PRIOR "THE ANCHOR MAN".

7. INDUSTRIAL DEMOCRACY - HAYHOE SAID THAT SINCE LABOR
WILL HAVE LITTLE TO OFFER THE UNIONS WHEN THEY GO TO THE
POLLS EXCEPT HOPE, THE GOVERNMENT WILL WANT TO PUSH
THROUGH SOME SORT OF INDUSTRIAL DEMOCRACY LEGISLATION BY
1978. PRIOR SAID THAT THE CONSERVATIVES OPPOSE ANY
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LEGISLATION CALLING FOR COMPULSORY WORKER REPRESENTATION

BRITISH COMPANIES, AND IF THERE IS NO
LEGISLATION ON THE BOOKS BY THE TIME THEY RETURN TO
POWER, THEY WILL PRESS INSTEAD FOR VOLUNTARY SYSTEM OF
WORKS COUNCILS. (HE INDICATED, HOWEVER, THAT THE
CONSERVATIVES DO NOT WISH TO REPEAL EXISTING LEGISLATION
- INCLUDING INDUSTRIAL DEMOCRACY LAW - EXCEPT AS A LAST
RESORT.)

7. WAGE RESTRAINT - PRIOR WOULD LIKE TO SEE A CONTINU-
ATION OF WAGE RESTRAINT POLICY FOR AT LEAST THE NEXT
FOUR YEARS, ALTHOUGH HE AGREES IT HAS TO BE MORE FLEXIBLE
IN ORDER TO ALLOW FOR ANOMALIES AND WAGE DIFFERENTIALS
WHICH HAVE DEVELOPED DURING THE LAST SEVERAL YEARS OF
RESTRAINT POLICIES. HOWEVER, HE IS OPPOSED TO SETTING
UP FORMAL MACHINERY TO DEAL WITH THESE WAGE DIFFEREN-
TIALS, PREFERRING INSTEAD THE USE OF THE TAX SYSTEM TO
HELP THE HIGHLY SKILLED AND ALSO THE VERY POOR.

8. COMMENT. APART FROM THE OTHER INTERESTING INSIGHTS
PROVIDED BY THESE MEN DURING THE DISCUSSION, IT APPEARED
ABUNDANTLY CLEAR THAT IF PRIOR AND OTHER CONSERVATIVE
MODERATES -- NOW INCLUDING THE ILLUSTRIOUS MR. HEATH --
HAVE THEIR WAY, THE CONSERVATIVES WOULD PRESENT A
SWEETLY REASONABLE FACE TO THE UNIONS. BUT, AS ONE OF
THE ENEMY CAMP -- A LABOR GOVERNMENT MINISTER -- TOLD
US, "THE CONSERVATIVES ARE TOO SCHIZOPHRENIC". WHAT HE
MEANT, OF COURSE. IS THAT WHILE THE HEATHS AND THE PRIORS
AND THE HAYHOES ARE COOING LIKE DOVES, THERE ARE ALSO A
NUMBER OF HAWKS IN THE CONSERVATIVE PARTY NESTING NEARBY,
READY TO SWOOP DOWN ON NOT SO UNSUSPECTING A TRADE UNION
LEADER OR "UNEMPLOYMENT SCROUNGER". BUT, IF THE TACTICS
PRIOR PROPOSES WERE TO BECOME MORE WIDELY ACCEPTED IN THE
CONSERVATIVE PARTY, IT WOULD SEEM TO US TO BE A WISE
POLICY. LEN MURRAY HIMSELF HAS ARGUED THAT THE TUC IS
PREPARED TO WORK WITH ANY PARTY IN POWER. THIS AND SIM-
ILAR EXPRESSIONS BY OTHER TUC LEADERS ARE WORTH PUTTING
TO THE TEST. PERHAPS. THERE IS A BASIC AND UNDERLYING
DIVIDE BETWEEN THE TRADE UNIONS AND THE CONSERVATIVE
PARTY ON THE BROAD ISSUES DELINEATED AT THEIR RESPECTIVE
CONFERENCES. BUT IT IS NOT BEYOND THE REALM OF
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POSSIBILITY TO WORK OUT A MODUS-VIVENDI EVEN THOUGH THE
ODDS MAY APPEAR AGAINST IT.

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